University of Missouri System
Accounting Policies and Procedures

Policy Number: APM-2.25.55

Policy Name: Segregation of Duties

General Policy and Procedure Overview:

Segregation of duties is a basic, key internal control and is used to prevent or detect errors or irregularities on a timely basis by employees in the normal course of business. Senior administration and all individuals responsible for assignment and supervision of employees that carry out fiscal activities, budget, and implementation of internal controls must ensure there is adequate segregation of duties within their areas of responsibility, or provide compensating controls, if required. Segregation of duties provides two benefits:

1) Deter fraud, as it is more difficult to commit fraud when it requires collusion of two or more persons;
2) The probability for detection of errors or irregularities increases when a second individual reviews or participates in the processing of a transaction.

At the most basic level, no single individual should have responsibility to complete two or more phases of a transaction or process.

Definition of Key Terms:

Authorization: process of giving someone permission to initiate a financial transaction, sometimes known as "approval", indicating agreement that a transaction meets certain accounting and compliance requirements as defined by the University.

Feeder system: database and/or dedicated system/module that controls information that will be transmitted to the General Ledger.

Feeder system owner: University department responsible for the feeder system.

Internal control: process established by management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Managerial Review: process providing assurance that appropriate individuals are authorizing and verifying accounting transaction information.

Mitigating or compensating control: additional procedure designed to reduce the risk of errors or irregularities in those instances where duties cannot be fully segregated.

Verification: process that confirms accuracy of accounting transactions, such as appropriate use of ChartFields and that the transaction was recorded in the appropriate accounting period.

Detail Policy and Procedure:

In an ideal environment, a different employee should perform each of the following major functions:

- Authorization
- Recording
- Verification
- Custody of Assets
- Managerial Review

No one person should have responsibility to complete two or more of these major responsibilities. There is a greater need for proper segregation of duties for assets that are more negotiable (i.e. cash funds, negotiable checks and inventories). If a person performs more than one of these major functions, without additional mitigating controls in place, there is the potential to carry out and conceal errors and/or irregularities in the course of performing day-to-day activities. Examples of incompatible duties are:

- Authorizing a transaction, receiving and maintaining custody of the asset that resulted from the transaction.
- Performing data entry and performing data validation tests.
- Receiving checks (payment on account) and approving write-offs on accounts.
- Depositing cash and reconciling bank statements.
- Having unlimited access to assets, accounting records, and computer terminals and programs.

Note: For additional information regarding allowability and allocability for sponsored activity refer to APM 2.25.55.01 Segregation of Duties – Sponsored Programs.

The major functions presented above are discussed as follows:

Authorization

All transactions must be authorized. The individual initiating the transaction must have the authority to do so. Authorization confirms adherence to the following general requirements:

- Employees cannot authorize transactions for their own business reimbursement.
- Documentation of the authorization:
  - All authorizations (electronic or written) must be reproducible.
  - Facsimile signatures are acceptable in circumstances when impractical to obtain originals. Original or authenticated electronic signatures are preferred.
  - Examples of the various forms of authorization may include:
    - signed vouchers
    - signed travel reimbursement requests
    - signed work orders or service requests
    - electronic signature on a requisition or receiver
    - email authorizing a specific transaction

        - meeting minutes authorizing transactions or activity
- These forms of documentation are unacceptable methods:
    - Verbal authorizations are not valid.
    - Signature stamps are not acceptable.
- All transactions must adhere to University Policies, particularly:
    - Accounting Policy Manual,
    - Business Policy Manual,
    - Purchasing Card Policy Manual
    - Procurement Services Policies, and
    - Human Resources Policy Manual.
- Transactions must comply with existing laws, regulations and compliance requirements.
- All individuals responsible for assignment and supervision of employees that carry out fiscal activities, or their designees, should appoint and document authorized signers of all financial transactions.

Note: Many transactions feed to General Ledger (GL) via a feeder system. Some feeder systems allow both departmental users and the feeder system owner to input transactions to the feeder system. Documentation of authorization must be maintained by the department entering the transaction for a feeder.

Recording

Recording is the process of creating and maintaining records of revenues, expenditures, assets, and liabilities. These may be manual records or records maintained in the financial systems. Some examples include:

- Preparing cash receipts, billings, and requisitions
- Entering charges or posting payments to an accounts receivable system
- Maintaining inventory records
- Creating a journal entry
- Inputting time or absence records into payroll

Verification

Verification of processing or recording of transactions ensures all transactions are valid, comply with authorization requirements, and are properly recorded on a timely basis. This includes resolving identified differences or discrepancies. The verification must be documented with a signature (electronic or manual) and date. Examples include:

- Verifying cash collections and compare/reconcile to daily balancing reports
- Comparing cash receipts log to accounts receivable postings
- Comparing collections to deposits
- Reconciling departmental records of revenue, expenditure, or payroll transactions to the financial system
- Comparing payroll verifications to payroll summaries
- Performing physical inventory counts
- Comparing inventory changes to amounts purchased and sold
- Comparing billing documents to billing summaries

Custody of Assets

Custody of Assets is the access to or control over physical assets such as cash, checks, equipment, supplies, or materials. Examples include:

- Access to any funds through the collection of funds, or processing of payments
- Access to safes, lock boxes, file cabinets or other places where money, checks or other assets are stored
- Receiving goods or services
- Maintaining inventories
- Safekeeping of parking permits, or event tickets.

Managerial Review

In all cases, there is a level of review of the activity by managerial level personnel. This Managerial Review function provides assurance that segregation exists and that the transactions are appropriate. The frequency and extent required of the managerial review depends upon the degree to which duties are or are not segregated and other factors such as the dollar volume of transactions, the amount of cash involved, or the nature of the operation.

Minimal Acceptable Degrees of Segregation

In those departments where the optimum degree of segregation cannot be achieved, a minimum degree of segregation must be maintained. At a minimum, no person should be able to perform more than two of the functions. The matrix below illustrates various degrees of segregation. The X, and O represent different staff members, and the M represents a third staff member—the manager.

	Authorization	Recording	Verification	Managerial Review
1	O	X	O	M
2	X	X	O	M
3	X	O	O	M
4	X	X	X	M

To maximize the opportunity to identify errors in the ordinary course of business, it is recommended that the process of recording and verification be performed by two different individuals such as in examples 1 and 2. In examples 3 and 4, there must be a significant reliance on the managerial review to operate on a much more detailed and frequent basis to identify errors and irregularities timely.

In instances where duties cannot be fully segregated, based on the matrix presented above, mitigating or compensating controls must be established. For instance, if the record keeper also performs a verification process, a frequent detailed review could be performed and documented by a supervisor to provide additional control over the assignment of incompatible functions.

Mitigating Controls

There are several other control mechanisms that may mitigate a lack of segregation of duties:

- Audit trails enable re-creation of the actual transaction flow from the point of origination to its existence on an updated file. Adequate audit trails should provide the initiator of the transaction, date and time of entry, type of entry, data fields, and files updated.
- Reconciliation of applications increases the level of confidence that processes ran and/or interfaced successfully.
- Exception reports monitored at a supervisory level, supported by evidence that exceptions are reviewed, and if necessary, corrected timely. The review must be evidenced by signature of the supervisor and dated.
- Managerial reviews should periodically be performed through observation and inquiry to help detect errors and irregularities.

Responsibility

Every employee

- Is responsible to know and follow appropriate policies and procedures for their job.
- Is responsible for executing internal control activities.
- Should identify opportunities to increase the reliability and integrity of the University's accounting systems.
- Must notify supervisors of weaknesses in, and opportunities to enhance internal controls.

Managers

- Must establish appropriate controls in their sphere of influence.
- Must monitor the operation and effectiveness of controls.
- Must ensure appropriate segregation exists between functions.
- Must ensure that effective mitigating controls are in place when adequate segregation of duties cannot be achieved.

Effective Date: October 1, 2008
Revised Date: August 29, 2008

Questions and Comments?

Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.